

BOYNE CITY HOUSING COMMISSION
BOYNE CITY, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Boyne City Housing Commission	County Charlevoix
Fiscal Year End September 30, 2005	Opinion Date May 31, 2006	Date Audit Report Submitted to State June 7, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Internal Control and Compliance letter	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA	License Number 11050	

BOYNE CITY HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Boyne City Housing Commission
Boyne City, Michigan

I have audited the accompanying financial statements of the business-type activities of the Boyne City Housing Commission, Michigan, a component unit of the City of Boyne City, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Boyne City Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - State and Local Governments*, as amended and interpreted as of September 30, 2005.

Boyne City Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated May 31, 2006, on my consideration of Boyne City Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Boyne City Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Barry E. Landolt, CPA, PC

May 31, 2006

BOYNE CITY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2005

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The Boyne City Housing Commission, created in 1967, by the City of Boyne City provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Boyne City Housing Commission consists of five programs. The first is owned housing, consisting of 79 units of public housing, the second is the capital funding program, the third is Housing Choice Voucher Program, consisting of subsidies for 60 qualifying low-income residents for rental housing, the fourth is the Business Activities Fund that consists of two mortgages secured by vacant land and the fifth includes an existing program the Housing Commission took over from the former Charlevoix-Emmet Housing Coalition.

Boyne City Housing Commission had total revenues of \$760,278 that includes \$212,882 in rental payments and \$435,210 in federal assistance. Total revenues increased by \$22,212, in part, because revenues from tenant rents increased by \$10,882 from the prior year and the Housing Commission is now collecting management fees for managing 30 units at Deer Meadows. Total operating expenses were \$926,093, that includes \$263,739 in administrative expenses, \$202,408 in maintenance expenses, \$211,043 in housing assistance payments, and \$134,712 in depreciation expense. The operating expenses increased by \$50,267, in part, because of increases in the operating expenses of the Charlevoix-Emmet Housing Coalition transition houses and an increase in wages and benefits.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$1,927,226. The Housing Commission's total net assets decreased by \$165,815 compared to the prior year. The decrease can be attributed, in part, to the depreciation expense of \$134,712.

The assets of the Housing Commission were \$2,262,334 and also, there was \$149,016 of current assets and \$106,092 in current liabilities. There was a net decrease in total assets of \$157,356 from the prior year. The decrease is due, in part, because of the increase in operating expenses. The Housing Commission's overall financial condition has declined from the prior year. This next fiscal year there will a decrease in employees and a change in the health insurance plan to help improve the financial condition.

BOYNE CITY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

September 30, 2005
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Financial Highlights

The Housing Commission during the fiscal year replaced some furnaces and carpeting. The Housing Commission's capital outlays totaled \$4,799 during the current fiscal year. The capital improvements budgeted for the fiscal year ending September 30, 2006, is \$21,500. The proposed capital improvements include furnace, carpet, kitchen, bathroom and stoves/refrigerators replacements.

The Housing Commission owes \$152,647 to two local banks, secured by vacant land. The Housing Commission has another loan of \$37,862 to Huntington National Bank, secured by buildings taken over from the Charlevoix-Emmet Housing Coalition in a prior year.

The Housing Commission is switching their health care coverage from Blue Cross Blue Shield to Priority Health to save between \$15,000 to \$20,000 per year. The Executive Director retired during the month of January 2006 and has not been replaced yet, there is now one less maintenance position, the custodial position has been eliminated, and the receptionist position has been vacant. HUD conducted a confirmatory review and independent assessment of the Housing Commission, dated May 13, 2005. The Housing Commission is in the process of implementing the recommendations. The Real Estate Assessment Center for the fiscal year ended September 30, 2005 has given the Housing Commission a designation status of substandard financial and a PHAS score of 77. Other than these changes, there are not any significant currently known facts, decisions or conditions that have an impact on the Commission's operations to disclose.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Colleen Smith, Interim Executive Director
Boyne City, Michigan 49712

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.

BOYNE CITY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

September 30, 2005

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Overview of the Financial Statements (continued)

- * Statement of Activities reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following statement of net assets shows a summary of changes for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 149,016	\$ 175,995	\$ (26,979)
Restricted assets	1,173	1,637	(464)
Property and equipment	<u>2,112,145</u>	<u>2,242,058</u>	<u>(129,913)</u>
Total assets	<u>\$2,262,334</u>	<u>\$2,419,690</u>	<u>\$ (157,356)</u>
Current liabilities	\$ 106,092	\$ 84,843	\$ 21,249
Noncurrent liabilities	<u>229,016</u>	<u>241,806</u>	<u>(12,790)</u>
Total liabilities	<u>335,108</u>	<u>326,649</u>	<u>8,459</u>
Net assets:			
Invested in capital assets	1,921,636	2,039,891	(118,255)
Unrestricted net assets	<u>5,590</u>	<u>53,150</u>	<u>(47,560)</u>
Total net assets	<u>1,927,226</u>	<u>2,093,041</u>	<u>(165,815)</u>
Total liabilities and net assets	<u>\$2,262,334</u>	<u>\$2,419,690</u>	<u>\$ (157,356)</u>

BOYNE CITY HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

September 30, 2005

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Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Activities of the Housing Commission for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 212,882	\$ 202,000	\$ 10,882
Nondwelling rent	<u> </u>	<u>200</u>	<u>(200)</u>
Total operating revenues	<u>212,882</u>	<u>202,200</u>	<u>10,682</u>
Operating expenses:			
Administration	263,739	236,608	27,131
Tenant services	4,504	4,451	53
Utilities	49,745	43,391	6,354
Ordinary maintenance and operation	202,408	195,531	6,877
General expenses	63,149	49,549	13,600
Extraordinary maintenance	4,536	8,454	(3,918)
Casualty losses	(7,743)		(7,743)
Housing assistance payments	211,043	202,195	8,848
Depreciation	<u>134,712</u>	<u>135,647</u>	<u>(935)</u>
Total operating expenses	<u>926,093</u>	<u>875,826</u>	<u>50,267</u>
Operating income(loss)	<u>(713,211)</u>	<u>(673,626)</u>	<u>(39,585)</u>
Non-operating revenue (expense):			
Interest income	2,540	2,235	305
Other income	87,357	40,003	47,354
Gain/loss on sale of fixed assets		20	(20)
Operating grants	435,210	477,446	(42,236)
Other government grants	<u>22,289</u>	<u>16,162</u>	<u>6,127</u>
Total nonoperating revenue (expense)	<u>547,396</u>	<u>535,866</u>	<u>11,530</u>
Change in net assets	<u><u>\$ (165,815)</u></u>	<u><u>\$ (137,760)</u></u>	<u><u>\$ (28,055)</u></u>

FINANCIAL STATEMENTS

BOYNE CITY HOUSING COMMISSION

STATEMENT OF NET ASSETS

September 30, 2005

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ASSETS

Current Assets:

Cash	\$ 50,217
Accounts receivable-HUD	23,218
Accounts receivable-miscellaneous	525
Accounts receivable-tenants	1,560
Allowance for doubtful accounts	(1,113)
Accrued interest receivable	45
Investments-unrestricted	55,299
Prepaid expenses	18,278
Inventories	<u>987</u>

Total Current Assets	<u>149,016</u>
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Restricted investments	<u>1,173</u>
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Property and Equipment:

Land	793,268
Buildings	3,137,732
Equipment	<u>144,739</u>
	4,075,739

Less: accumulated depreciation	<u>(1,963,594)</u>
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Net Property and Equipment	<u>2,112,145</u>
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Total Assets	<u>\$ 2,262,334</u>
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See notes to financial statements

BOYNE CITY HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 8,903
Tenant security deposit liability	23,065
Accrued expenses	37,045
Deferred revenues	23,040
Current portion of long-term debt	11,242
Other current liabilities	<u>2,797</u>
Total Current Liabilities	<u>106,092</u>
Noncurrent Liabilities:	
Accrued compensated absences	48,587
Long-term debt	179,267
Noncurrent liabilities-other	<u>1,162</u>
Total Noncurrent Liabilities	<u>229,016</u>
Total Liabilities	<u>335,108</u>
Net Assets:	
Invested in capital assets	1,921,636
Unrestricted net assets	<u>5,590</u>
Total Net Assets	<u>1,927,226</u>
Total Liabilities and Net Assets	<u>\$ 2,262,334</u>

See notes to financial statements

BOYNE CITY HOUSING COMMISSION
STATEMENT OF ACTIVITIES
 Year Ended September 30, 2005
 =====

OPERATING REVENUES:

Dwelling rent	\$ 212,882
Total operating revenues	<u>212,882</u>

OPERATING EXPENSES:

Administration	263,739
Tenant services	4,504
Utilities	49,745
Ordinary maintenance and operation	202,408
General expenses	63,149
Extraordinary maintenance	4,536
Casualty losses	(7,743)
Housing assistance payments	211,043
Depreciation	<u>134,712</u>
Total operating expenses	<u>926,093</u>

Operating income(loss)	<u>(713,211)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	2,540
Other income	87,357
Operating grants	435,210
Other government grants	<u>22,289</u>

Total nonoperating revenues(expenses)	<u>547,396</u>
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Change in net assets	(165,815)
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Prior period adjustments, equity transfers and correction of errors	(1,981)
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Net assets, beginning	<u>2,095,022</u>
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Net assets, ending	<u><u>\$ 1,927,226</u></u>
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See notes to financial statements

BOYNE CITY HOUSING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling rents	\$ 242,103
Cash payments to other suppliers of goods and services	(441,446)
Cash payments to employees for services and benefits	(354,173)
Cash payments for in lieu of property taxes	<u>(15,453)</u>
Net cash (used) by operating activities	<u>(568,969)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	707
Operating grants	433,934
Other government grants	22,289
Other revenue	<u>97,260</u>
Net cash provided by noncapital financing activities	<u>554,190</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Interest payments	(68)
Principal paid on mortgage	(11,658)
Payments for capital acquisitions	<u>(4,799)</u>
Net cash (used) by capital and related financing activities	<u>(16,525)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	2,495
Proceeds from investments maturing	464
Increase in investments	<u>(1,436)</u>
Net cash provided by investing activities	<u>1,523</u>

Net increase(decrease) in cash	(29,781)
Cash, beginning	<u>79,998</u>
Cash, ending	<u>\$ 50,217</u>

See notes to financial statements

BOYNE CITY HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
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SCHEDULE RECONCILING OPERATING INCOME TO NET
CASH FLOW FROM OPERATING ACTIVITIES:

Operating income(loss)	\$(713,211)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation expense	134,712
Bad debt expensed	(5,144)
Adjustments	(1,181)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	7,599
Prepaid expenses	(12,441)
Inventory	(762)
Increase (decrease) in liabilities:	
Accounts payable-trade	3,033
Accrued wage/payroll taxes payable	(5,898)
Accrued compensated absences	6,094
Current liabilities	(2,917)
Noncurrent liabilities	(475)
Deferred revenues	<u>21,622</u>
 Net cash (used) by operating activities	 <u><u>\$(568,969)</u></u>

See notes to financial statements

BOYNE CITY HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Boyne City Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Boyne City Housing Commission is a component unit of the City of Boyne City, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Boyne City on January 30, 1967, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Boyne City Housing Commission over which the Commission exercises operational control or which have financial significance to the Commission. The Housing Commission has no component units.

BCHC Nonprofit Housing Corporation - The Housing Commission formed a non-profit housing corporation on September 12, 2000, the B.C.H.C. Non Profit Housing Corp to own .01% of the capital of the BCHC LDHA Limited Partnership. The B.C.H.C. Non Profit Housing Corp is the General Partner of the Partnership and the NDC Corporate Equity Fund III LP partnership is a limited partner and has a 99.99% share of capital. BCHC LDHA Limited Partnership has constructed low-income housing on property obtained from the Boyne City Housing Commission. The housing complex "Deer Meadows" is operated by the partnership and is managed by the Housing Commission. Financial statements of the BCHC LDHA Limited Partnership are available from the Executive Director of the Boyne City Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3096, the Housing Commission constructed, maintains and operates 79 units of subsidized housing in the City of Boyne City, Michigan. Under Contract C-8119, the Housing Commission manages a Housing Choice Voucher program of subsidies for 60 qualifying low-income residents for rental housing. The Housing Commission receives an

annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Boyne City Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	5 - 10 years
Building improvements	10 - 15 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission's staff are employees of the City of Boyne City which establishes personnel policies including accrual and use of vacation and sick leave. Accumulated unpaid vacation and sick leave are recorded as liabilities when incurred. Under the City of Boyne City benefit plan, unpaid vacation is payable upon termination and is recognized as a current liability. Unpaid sick

leave is payable only at retirement, at a rate of 1 1/2% per year up to a maximum of 90 days after the employee has served 10 years or more.

The amount of accumulated benefits is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program, Housing Choice Voucher, Development, and Transitional Housing funds. Landlord checks are processed through the Housing Choice Voucher and Transitional Housing accounts. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$49,947 and the bank balance was \$91,594 of which \$91,864 was covered by federal depository insurance. The Housing Commission also has \$250 in petty cash and \$20 in a change fund.

Investments

The Housing Commission had the following investments in a certificate of deposit and a money market account as of September 30, 2005:

Bank of Northern Michigan (CD #801260)	\$ 55,299
Huntington Bank (Money Market #01182013749)	<u>1,173</u>
	<u>\$ 56,472</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves

the following securities and deposit accounts: U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 270
Carrying amount of deposits	49,947
Investments	<u>56,472</u>
Total	<u>\$ 106,689</u>

Cash and cash equivalents:	
Enterprise activities	\$ 148,336
Enterprise activities - checks written in excess of deposits	<u>(41,647)</u>
Total	<u>\$ 106,689</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, the receivables were \$1,560 with \$1,113 estimated as uncollectible. Bad debt expense was \$8,002.

Inter-fund Receivables and Payables

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	97,105	Housing Choice Vouchers	
Development Fund	3,321	Program	\$ 35,315
		Development Program	61,790
		Business Activities	
		Fund	<u>3,321</u>
	<u>\$100,426</u>		<u>\$100,426</u>

The capital fund program transferred \$103,393 to the Low Rent Program during the fiscal year ended September 30, 2005.

Due from HUD

Due from HUD represents advanced funding that was less than the Housing Commission's actual expenses for the programs financed. Balances at September 30, 2005 were as follows:

Housing Choice Voucher Program	<u>\$23,218</u>
--------------------------------	-----------------

Due to City of Boyne City

The City of Boyne City makes disbursements to the Housing Commission's staff for compensation and payments to vendors for employee benefits, worker's compensation insurance, vehicle insurance, telephone, and miscellaneous costs. On a periodic basis, the City bills the Housing Commission for actual

compensation and vendor payments made on behalf of the Housing Commission. During the year ended September 30, 2005, the City paid compensation of \$222,330 and employee benefits of \$125,886. At September 30, 2005, the amounts due the City of Boyne City for these costs were:

Low Rent Program \$21,548

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
Low Rent Program			
Land	\$ 547,988	\$	\$ 547,988
Buildings	3,090,764	4,798	3,095,562
Furniture, equip. & machinery - dwellings	13,130		13,130
Furniture, equip. & machinery - administration	<u>129,611</u>	<u></u>	<u>129,611</u>
	3,781,493	\$ 4,798	3,786,291
Less accumulated depreciation	<u>(1,826,157)</u>	<u>\$ (133,855)</u>	<u>(1,960,012)</u>
Total	<u>\$1,955,336</u>		<u>\$1,826,279</u>
Housing Choice Voucher Program			
Furniture, equip. and machinery- administration	\$ <u>1,998</u>	\$ <u></u>	\$ <u>1,998</u>
	1,998	\$	1,998
Less accumulated depreciation	<u>(1,998)</u>	<u>\$</u>	<u>(1,998)</u>
Total	<u>\$</u>		<u>\$</u>
Development Fund			
Land	<u>\$ 245,279</u>	<u>\$ 1</u>	<u>\$ 245,280</u>
Transitional Housing Fund			
Buildings	\$ <u>42,170</u>	\$ <u></u>	\$ <u>42,170</u>
	42,170	\$	42,170
Less accumulated depreciation	<u>(727)</u>	<u>\$ (857)</u>	<u>(1,584)</u>
Total	<u>\$ 41,443</u>		<u>\$ 40,586</u>
Combined Totals	<u>\$2,242,058</u>		<u>\$2,112,145</u>

The Development Fund has vacant land that is retained by the Housing Commission to meet future low-income housing and other needs consistent with its mission.

NOTE 5: SCHEDULE OF INVESTMENT IN CAPITAL ASSETS

Changes in the investment in capital assets in the enterprise fund type for the year ended September 30, 2005, consist of the following:

	Invested in <u>Capital Assets</u>
Balance, beginning	\$ 2,039,891
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>(118,255)</u>
Balance, ending	<u>\$ 1,921,636</u>

NOTE 6: LONG-TERM DEBT

Transitional Housing Fund

The Housing Commission is reporting a loan with the Huntington National Bank with a balance of \$37,862 owing, a maturity date of May 14, 2009 and an interest rate of 6.5%. This is a loan of a non-profit corporation and secured by two houses of the Charlevoix-Emmet Housing Coalition this past fiscal year.

Debt principal requirements for the ensuing five-year period are as follows:

2006	\$ 1,750
2007	1,863
2008	1,984
2009	<u>32,265</u>
	<u>\$ 37,862</u>

Development Fund

The Housing Commission's Development Fund has two mortgage notes with local banks secured by vacant land. One note (Series A) has an original issue amount of \$96,000 at 8.5% with semi-annual interest payments and an annual principal payment of \$500. The loan is for a five year period, maturing October 10, 2017. The note balance at September 30, 2005 was \$34,309. The second note (Series B) was for \$144,000 at 6.375% with semi-annual interest payments and an annual principal payment of \$1,000. This note is a five-year note maturing October 10, 2017. The note balance at September 30, 2005 was \$118,338. Interest charges totaled \$6,417 for the year ended September 30, 2005. On October 10, 2002, the Housing Commission renewed these notes at variable interest rates with the Series A note at an effective rate of 5.875% and the Series B note at an

effective rate of 4.125%. Annual principal payments remain at \$500 and \$1,000, respectively. The notes are renewable at five-year intervals with renegotiated rates of interest.

Debt principal requirements for the ensuing five-year period are as follows:

2006	\$ 1,500
2007	1,500
2008	1,500
2009	1,500
2010	1,500
Thereafter	<u>145,147</u>
	<u>\$ 152,647</u>

NOTE 7: SEGMENT INFORMATION

The Housing Commission is a single purpose Enterprise Fund which provides housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

Condensed Statement of Net Assets

Current assets	\$ 149,016
Restricted assets	1,173
Property & equipment	<u>2,112,145</u>
Total assets	<u>\$ 2,262,334</u>
Current liabilities	\$ 106,092
Noncurrent liabilities	<u>229,016</u>
Total noncurrent liabilities	<u>335,108</u>
Net assets:	
Invested in capital assets	1,921,636
Unrestricted net assets	<u>5,590</u>
Total net assets	<u>1,927,226</u>
Total liabilities & net assets	<u>\$ 2,262,334</u>

Condensed Statement of Activities

Dwelling rents	\$ 212,882
Depreciation expense	(134,712)
Other operating expenses	<u>(791,381)</u>
Operating (loss)	(713,211)
Nonoperating revenues (expenses):	
Investment earnings	2,540
Other income	<u>87,357</u>
Operating grants	435,210
Other government grants	<u>22,289</u>
Change in net assets	(165,815)
Prior period adjustments	(1,981)
Beginning net assets	<u>2,095,022</u>
Ending net assets	<u>\$1,927,226</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:

Operating activities	\$(568,969)
Noncapital financing activities	554,190
Capital and related financing activities	(16,525)
Investing activities	<u>1,523</u>
Net increase (decrease)	(29,781)
Beginning cash	<u>79,998</u>
Ending cash	<u>\$ 50,217</u>

NOTE 8: OTHER INFORMATION**A. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

B. Pension Plan

The Housing Commission staff are employees of the City of Boyne City. Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System that provides for annual employer and employee contributions with complete vesting after 8 years of service. At December 31, 2003, the date of the last completed actuarial evaluation, the Housing Commission's actual liability for retirement benefits was \$599,273 (employer and employee combined). Assets available to meet this obligation were \$478,452. The Housing Commission makes monthly contributions of \$1,511 (employer) at the rate of 3.25% (of unfunded accrued liability) and 5.84% (of normal cost) of payroll to cover the employer's cost for current benefits. The Housing Commission made total (employer and employee) retirement contributions of \$30,246 on covered wages of \$222,330 during the year ended September 30, 2005. There are seven (7) active employees and 1 retiree and beneficiary. There is an underfunded balance of \$120,821 as of December 31, 2003.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the

three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Prior year adjustment

\$ (800)

Housing Choice Vouchers

Prior year adjustment

\$ (1,181)

NOTE 9: COMMITMENTS

Note 1 describes the Housing Commission's involvement with the BCHC LDHA Limited Partnership by the creation of the BCHC Nonprofit Housing Corporation. The Partnership was audited by other auditor's and the notes included the following:

Note 4 - Long-Term Debt

Long-term debt was \$828,909 (net of current portion of \$7,200) and \$835,579 (net of current portion of \$6,500) at December 31, 2005 and 2004, respectively. There are two mortgages of \$645,000 and \$210,000. The original mortgage balance of \$645,000 is with Citizens Bank, bearing interest at 8.5%. The mortgage is being amortized using a 30 year period with a maturity date of May 5, 2022. At that time, all outstanding principal and accrued interest is due. The \$210,000 mortgage is a deferred loan at an interest rate to be determined. No payments are due until completion of the first mortgage. Both mortgages are secured by substantially all assets of the partnership, with the deferred loan being subordinated. The deferred loan is from Boyne City Housing Commission, parent organization of the general partner.

SUPPLEMENTARY INFORMATION

BOYNE CITY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2005

=====

C-3096	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 29,377	\$
Accounts receivable-HUD		
Accounts receivable-miscellaneous	525	
Accounts receivable-tenants	1,560	
Allowance for doubtful accounts	(1,113)	
Accrued interest receivable	45	
Investments-unrestricted	55,299	
Investments-restricted		
Prepaid expenses	17,523	
Inventories	987	
Due from other programs	<u>97,105</u>	
Total current assets	<u>201,308</u>	

Property and equipment:

Land	547,988	
Buildings	3,095,562	
Equipment	<u>142,741</u>	
	3,786,291	
Less accumulated depreciation	<u>(1,960,012)</u>	
Net property and equipment	<u>1,826,279</u>	
Total Assets	<u><u>\$2,027,587</u></u>	<u>\$</u>

Housing Choice Vouchers 14.871	Development Fund	Transitional Housing Fund	Totals
\$ 10,131	\$ 6,125	\$ 4,584	\$ 50,217
23,218			23,218
			525
			1,560
			(1,113)
			45
			55,299
1,173			1,173
474		281	18,278
			987
	3,321		100,426
34,996	9,446	4,865	250,615
	245,280		793,268
		42,170	3,137,732
1,998			144,739
1,998	245,280	42,170	4,075,739
(1,998)		(1,584)	(1,963,594)
	245,280	40,586	2,112,145
\$ 34,996	\$ 254,726	\$ 45,451	\$ 2,362,760

BOYNE CITY HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005

=====

	C-3096 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 8,257	\$
Tenant security deposit liability	21,361	
Accrued expenses	32,794	
Deferred revenues	22,831	
Current portion of long-term debt		
Other current liabilities		
Due to other programs		
	<u> </u>	<u> </u>
Total current liabilities	<u>85,243</u>	<u> </u>
Noncurrent liabilities:		
Accrued compensated absences	42,074	
Long-term debt		
Noncurrent liabilities-other		
	<u> </u>	<u> </u>
Total noncurrent liabilities	<u>42,074</u>	<u> </u>
Total liabilities	<u>127,317</u>	<u> </u>
Net assets:		
Invested in capital assets	1,826,279	
Unrestricted net assets	<u>73,991</u>	<u> </u>
Total net assets	<u>1,900,270</u>	<u> </u>
Total Liabilities and Net Assets	<u>\$2,027,587</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Development Fund	Transitional Housing Fund	Totals
\$ 531	\$ 115	\$	\$ 8,903
		1,704	23,065
2,319	1,823	109	37,045
		209	23,040
	9,474	1,768	11,242
		2,797	2,797
<u>35,315</u>	<u>61,790</u>	<u>3,321</u>	<u>100,426</u>
<u>38,165</u>	<u>73,202</u>	<u>9,908</u>	<u>206,518</u>
1,938	4,575		48,587
	143,173	36,094	179,267
<u>1,162</u>			<u>1,162</u>
<u>3,100</u>	<u>147,748</u>	<u>36,094</u>	<u>229,016</u>
<u>41,265</u>	<u>220,950</u>	<u>46,002</u>	<u>435,534</u>
	92,633	2,724	1,921,636
(6,269)	(58,857)	(3,275)	<u>5,590</u>
(6,269)	<u>33,776</u>	(551)	<u>1,927,226</u>
<u>\$ 34,996</u>	<u>\$ 254,726</u>	<u>\$ 45,451</u>	<u>\$ 2,362,760</u>

BOYNE CITY HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET ASSETS**
 Year Ended September 30, 2005

=====

	C-3096 Low Rent Program 14.850	Capital Fund Program 14.872
OPERATING REVENUES:		
Dwelling rent	\$ 202,073	\$
Nondwelling rent		
Total operating revenues	<u>202,073</u>	
OPERATING EXPENSES:		
Administration	183,141	
Tenant services	4,504	
Utilities	47,539	
Ordinary maintenance and operation	181,729	
General expenses	41,903	
Extraordinary maintenance	4,536	
Casualty losses		
Housing assistance payments		
Depreciation	<u>133,855</u>	
Total operating expenses	<u>597,207</u>	
Operating income(loss)	<u>(395,134)</u>	
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	2,103	
Other income	58,876	
Operating grants	91,063	103,393
Other government grants		
Operating transfers in (out)	<u>103,393</u>	<u>(103,393)</u>
Total nonoperating revenues (expenses)	<u>255,435</u>	
Change in net assets	(139,699)	
Prior period adjustments, equity transfers and correction of errors	(800)	
Net assets, beginning	<u>2,040,769</u>	
Net assets, ending	<u>\$ 1,900,270</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Development Fund	Transitional Housing Fund	Totals
\$	\$	\$ 10,809	\$ 212,882
		10,809	212,882
35,504	30,318	14,776	263,739
			4,504
		2,206	49,745
		20,679	202,408
	6,417	14,829	63,149
			4,536
		(7,743)	(7,743)
211,043			211,043
		857	134,712
246,547	36,735	45,604	926,093
(246,547)	(36,735)	(34,795)	(713,211)
160	102	175	2,540
	27,850	631	87,357
240,754			435,210
		22,289	22,289
240,914	27,952	23,095	547,396
(5,633)	(8,783)	(11,700)	(165,815)
(1,181)			(1,981)
545	42,559	11,149	2,095,022
\$ (6,269)	\$ 33,776	\$ (551)	\$ 1,927,226

BOYNE CITY HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling rents	\$ 231,554	
Cash payments to other suppliers of goods and services	(173,455)	
Cash payments to employees for services and benefits	(291,193)	
Cash payments for in lieu of property taxes	<u>(15,453)</u>	
Net cash (used) by operating activities	<u>(248,547)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	1,083	
Due to/from other funds	(25,648)	
Operating grants	91,063	103,393
Operating transfers in (out)	103,393	(103,393)
Other government grants		
Other revenue	<u>57,551</u>	
Net cash provided by noncapital financing activities	<u>227,442</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest payments		
Principal paid on mortgage		
Payments for capital acquisitions	<u>(4,798)</u>	
Net cash (used) by capital and related financing activities	<u>(4,798)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	2,058	
Proceeds from investments maturing		
Increase in investments	<u>(1,436)</u>	
Net cash provided by investing activities	<u>622</u>	
Net increase (decrease) in cash	(25,281)	
Cash, beginning	<u>54,658</u>	
Cash, ending	<u><u>\$ 29,377</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers 14.871	Development Fund	Transitional Housing Fund	Totals
\$	\$	\$ 10,549	\$ 242,103
(221,573)	(8,810)	(37,608)	(441,446)
(26,799)	(26,181)	(10,000)	(354,173)
			(15,453)
(248,372)	(34,991)	(37,059)	(568,969)
		(376)	707
13,891	(1,264)	13,021	433,934
239,478			
		22,289	22,289
	39,078	631	97,260
253,369	37,814	35,565	554,190
	(63)	(5)	(68)
	(10,002)	(1,656)	(11,658)
	(1)		(4,799)
	(10,066)	(1,661)	(16,525)
160	102	175	2,495
464			464
			(1,436)
624	102	175	1,523
5,621	(7,141)	(2,980)	(29,781)
4,510	13,266	7,564	79,998
<u>\$ 10,131</u>	<u>\$ 6,125</u>	<u>\$ 4,584</u>	<u>\$ 50,217</u>

BOYNE CITY HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2005
 =====

C-3096	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$ (395,134)	\$
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:		
Depreciation	133,855	
Bad debts	(5,144)	
Adjustments		
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	7,587	
Prepaid expenses	(12,023)	
Inventory	(762)	
Increase (decrease) in liabilities:		
Accounts payable-trade	2,637	
Accrued wage/payroll taxes payable	(5,936)	
Accrued compensated absences	4,479	
Current liabilities		
Noncurrent liabilities		
Deferred revenues	<u>21,894</u>	
Net cash (used) by operating activities	<u>\$ (248,547)</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Development Fund	Transitional Housing Fund	<u>Totals</u>
\$ (246,547)	\$ (36,735)	\$ (34,795)	\$ (713,211)
		857	134,712
(1,181)			(5,144)
			(1,181)
		12	7,599
(474)		56	(12,441)
			(762)
326	70		3,033
38			(5,898)
(59)	1,674		6,094
		(2,917)	(2,917)
(475)			(475)
<u> </u>	<u> </u>	<u>(272)</u>	<u>21,622</u>
<u>\$ (248,372)</u>	<u>\$ (34,991)</u>	<u>\$ (37,059)</u>	<u>\$ (568,969)</u>

BOYNE CITY HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 91,063
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	103,393
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2005	Housing Choice Vouchers	14.871	<u>240,754</u>
	Total		<u>\$ 435,210</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

BOYNE CITY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended September 30, 2005

=====

FDS Line Item No.		C-3096 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 29,377	\$
100	Total cash	<u>29,377</u>	
	Receivables:		
122	A/R-HUD other projects		
125	A/R-miscellaneous	525	
126	A/R-tenants-dwelling rents	1,560	
126.1	Allowance for doubtful accounts - dwelling rents	(1,113)	
129	Accrued interest receivable	<u>45</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>1,017</u>	
	Current Investments:		
131	Investments-unrestricted	55,299	
132	Investments-restricted		
	Total investments	<u>55,299</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	17,523	
143	Inventories	987	
144	Interprogram due from	<u>97,105</u>	
	Total other current assets	<u>115,615</u>	
150	Total current assets	<u>201,308</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	547,988	
162	Buildings	3,095,562	
163	Furn, equip & mach-dwellings	13,130	
164	Furn, equip & mach-admin.	129,611	
166	Accumulated depreciation	<u>(1,960,012)</u>	
160	Total fixed assets, net of accumulated depreciation	<u>1,826,279</u>	
180	Total noncurrent assets	<u>1,826,279</u>	
190	Total Assets	<u>\$ 2,027,587</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Business Activities	State/ Local	Totals
\$ <u>10,131</u>	\$ <u>6,125</u>	\$ <u>4,584</u>	\$ <u>50,217</u>
<u>10,131</u>	<u>6,125</u>	<u>4,584</u>	<u>50,217</u>
23,218			23,218 525 1,560
			(1,113) 45
<u>23,218</u>			<u>24,235</u>
<u>1,173</u>			55,299 <u>1,173</u>
<u>1,173</u>			<u>56,472</u>
474		281	18,278 987 <u>100,426</u>
<u>474</u>	<u>3,321</u>	<u>281</u>	<u>119,691</u>
<u>34,996</u>	<u>9,446</u>	<u>4,865</u>	<u>250,615</u>
	245,280	42,170	793,268 3,137,732 13,130 131,609
(1,998)		(1,584)	(1,963,594)
	<u>245,280</u>	<u>40,586</u>	<u>2,112,145</u>
	<u>245,280</u>	<u>40,586</u>	<u>2,112,145</u>
\$ <u>34,996</u>	\$ <u>254,726</u>	\$ <u>45,451</u>	\$ <u>2,362,760</u>

BOYNE CITY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.	C-3096 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
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LIABILITIES AND EQUITY

Liabilities:

Current Liabilities:

312	Accounts payable<=90 days	\$ 8,257	\$
321	Accrued wages/payroll taxes payable	21,548	
322	Accrued compensated absences	11,246	
325	Accrued interest payable		
341	Tenant security deposits	21,361	
342	Deferred revenues	22,831	
343	Current portion of long-term debt -capital projects		
345	Other current liabilities		
347	Interprogram due to		
310	Total current liabilities	85,243	

Noncurrent Liabilities:

351	Long-term debt-capital projects		
354	Accrued compensated absences	42,074	
353	Noncurrent liabilities-other		
	Total noncurrent liabilities	42,074	
300	Total liabilities	127,317	

Equity:

508.1	Invested in capital assets, net of related debt	1,826,279	
512.1	Unrestricted net assets	73,991	
513	Total equity/net assets	1,900,270	
600	Total Liabilities and Equity/Net Assets	\$ 2,027,587	\$

Housing Choice Vouchers <u>14.871</u>	Business Activities	State/ Local	Totals
\$ 531	\$ 115	\$	\$ 8,903
1,879			23,427
440	1,478		13,164
	345	109	454
		1,704	23,065
		209	23,040
	9,474	1,768	11,242
		2,797	2,797
<u>35,315</u>	<u>61,790</u>	<u>3,321</u>	<u>100,426</u>
<u>38,165</u>	<u>73,202</u>	<u>9,908</u>	<u>206,518</u>
	143,173	36,094	179,267
1,938	4,575		48,587
<u>1,162</u>			<u>1,162</u>
<u>3,100</u>	<u>147,748</u>	<u>36,094</u>	<u>229,016</u>
<u>41,265</u>	<u>220,950</u>	<u>46,002</u>	<u>435,534</u>
	92,633	2,724	1,921,636
<u>(6,269)</u>	<u>(58,857)</u>	<u>(3,275)</u>	<u>5,590</u>
<u>(6,269)</u>	<u>33,776</u>	<u>(551)</u>	<u>1,927,226</u>
<u>\$ 34,996</u>	<u>\$ 254,726</u>	<u>\$ 45,451</u>	<u>\$ 2,362,760</u>

BOYNE CITY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005

FDS Line Item No.		C-3096 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 202,073	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>202,073</u>	
706	HUD PHA grants	91,063	103,393
708	Other government grants		
711	Investment income-unrestricted	2,103	
715	Other revenue	<u>58,876</u>	
700	Total revenue	<u>354,115</u>	<u>103,393</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	97,173	
912	Auditing fees	3,300	
914	Compensated absences	4,478	
915	Employee benefit contributions-adm.	55,595	
916	Other operating-administrative	22,595	
	Tenant services:		
924	Tenant services-other	4,504	
	Utilities:		
931	Water	12,361	
932	Electricity	13,013	
933	Gas	22,165	
934	Fuel		
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	84,827	
942	Ordinary maint & oper-mat'ls & other	19,047	
943	Ordinary maint & oper-contract costs	30,192	
945	Employee benefit contributions- ordinary maintenance	47,663	
	General expenses:		
961	Insurance premiums	18,448	
962	Other general expenses		
963	Payments in lieu of taxes	15,453	
964	Bad debt-tenant rents	8,002	
967	Interest expense		
969	Total operating expenses	<u>458,816</u>	
970	Excess operating revenue over operating expenses	<u>(104,701)</u>	<u>103,393</u>

Housing Choice Vouchers 14.871	Business Activities	State/ Local	Totals
\$	\$	\$ 10,809	\$ 212,882
		10,809	212,882
240,754			435,210
		22,289	22,289
160	102	175	2,540
	27,850	631	87,357
240,914	27,952	33,904	760,278
16,815	17,000		130,988
500			3,800
(59)	1,675		6,094
9,963	9,180		74,738
8,285	2,463	14,776	48,119
			4,504
		1,589	13,950
		164	13,177
		330	22,495
		123	123
		6,515	91,342
		3,032	22,079
		7,647	37,839
		3,485	51,148
		806	19,254
		11,473	11,473
			15,453
			8,002
	6,417	2,550	8,967
35,504	36,735	52,490	583,545
205,410	(8,783)	(18,586)	176,733

BOYNE CITY HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		C-3096 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	4,536	
972	Casualty losses-noncapitalized		
973	Housing assistance payments		
974	Depreciation expense	<u>133,855</u>	
	Total other expenses	<u>138,391</u>	
900	Total expenses	<u>597,207</u>	
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(243,092)	103,393
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>103,393</u>	<u>(103,393)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(139,699)	
1103	Beginning Equity	2,040,769	
1104	Prior period adjustments, equity transfers and correction of errors	<u>(800)</u>	
	Ending Equity	<u>\$ 1,900,270</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Business Activities	State/ Local	Totals
			4,536
		(7,743)	(7,743)
211,043			211,043
		857	134,712
<u>211,043</u>		(6,886)	<u>342,548</u>
<u>246,547</u>	<u>36,735</u>	<u>45,604</u>	<u>926,093</u>
(5,633)	(8,783)	(11,700)	(165,815)
(5,633)	(8,783)	(11,700)	(165,815)
545	42,559	11,149	2,095,022
(1,181)			(1,981)
<u>\$ (6,269)</u>	<u>\$ 33,776</u>	<u>\$ (551)</u>	<u>\$1,927,226</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Boyne City Housing Commission
Boyne City, Michigan

I have audited the financial statements of the business-type activities of the Boyne City Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated May 31, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated May 31, 2006.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Boyer City Housing Commission
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 05-1.

I also noted certain additional matters that I reported to management of the Housing Commission, in a separate letter dated May 31, 2006.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Vanduit, CIA, PC

May 31, 2006

BOYNE CITY HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2005
 =====

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Housing Commission.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Housing Commission were discovered during the audit.
4. Material weaknesses were identified during the audit of the nonmajor federal award programs.
5. The auditors' report on compliance for the nonmajor federal award programs for the Housing Commission expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) or OMB Circular A-133 are reported in this Schedule.
7. Identification of nonmajor programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 91,063	No	C,L,N	N/A	05-1
14.872	Capital Fund Program	103,393	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>240,754</u>	No	O	N/A	N/A
	Total	<u>\$435,210</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was not determined to be a low-risk auditee.

B. Financial Statement Findings

None

BOYNE CITY HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

C. Federal Award Findings and Questioned Costs

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Low Rent Program - CFDA No. 14.850

05-1 Year Ended September 30, 2005

Condition and Criteria: The U.S. Department of Housing and Urban Development, Detroit Office of Public Housing, conducted an on-site review beginning May 9 through May 13, 2005. The purpose of the review was to (1) confirm the Housing Commission's FYE 2004 Management Assessment Sub-System (MASS) certification, (2) observe and note management and maintenance operations, practices, and procedures, and (3) assess the Housing Commission's specific needs for technical assistance.

The Housing Commission was not able to substantiate the FYE 2004 MASS Certification with appropriate documentation for (a) vacant unit turnaround time, (b) quality of the physical work, (c) annual inspection of dwelling units and common area/nondwelling space, and (d) security.

The review team's overall assessment is that the Housing Commission is at risk of remaining a Financially Troubled organization unless substantial qualitative changes are implemented immediately.

Effect: The Housing Commission is considered substandard in the financial area.

Cause: Fringe benefits as a percentage of wages is above 70% and the number of employees may need to be reduced.

Population and Items Tested: The review team did a confirmatory review of the management assessment sub-system and financial assessment sub-system of the Housing Commission. The review team also performed an independent assessment of operational areas of the Housing Commission.

Auditor's Recommendation: I recommend that the Housing Commission continue to implement the recommendations of the review team.

Grantee Response: Wages have been substantially reduced since the year ending September 30, 2005. The Executive Director retired in January 2006 and has not been replaced as of the audit report date. The receptionist, custodian, and a maintenance position have been eliminated since the year ending September 30, 2005. Also, the health insurance plan has been changed to Priority Health, resulting in substantial savings in premiums.

BOYNE CITY HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2005
=====

NONE

BOYNE CITY HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005

=====

There were no audit adjusting journal entries necessary.

BOYNE CITY HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2005

BOYNE CITY HOUSING COMMISSION
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SEPTEMBER 30, 2005

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Boyne City Housing Commission

I have audited the financial statements of the Boyne City Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated May 31, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - The Executive Director retired during the beginning of the fieldwork, so I didn't have the advantage of his input, but the staff and President of the Board were very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Bary E. Landolt, CPA

May 31, 2006

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Boyne City Housing Commission

I have audited the financial statements of the Boyne City Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated May 31, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

May 31, 2006

BOYNE CITY HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2005
=====

Acceptance of Cash

Currently the Housing Commission accepts cash, checks and money orders.

I recommend that the Housing Commission consider adopting a "no cash accepted" policy. There may be some exceptions allowed as determined by the Board.

Approval of Disbursements by the Board

The Housing Commission Board beginning in January 2006 has available a listing of checks to be paid, but there is no mention in the minutes that the Board approved payment of the checks.

The Board must approve all invoices prior to payment. All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the Charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

Resident Participation Funds

The Housing Commission in its budget indicated that a minimum of \$25 per tenant annually be spent. Since the Housing Commission has 79 Low Rent units, the \$25 would equal \$1,975 per year. The Housing Commission a total of \$4,504 during the fiscal year ending September 30, 2005, on tenant services.

I recommend that the Board review Notice PIH 2001-3, issued January 18, 2001, regarding instructions on distribution and use of operating subsidy funds received for resident participation activities. This Notice describes the HUD policy on administering resident participation funds, activities eligible for resident participation funds, funding amount, resolution of funding disputes, activities ineligible for resident participation funds and recipients ineligible for resident participation funds.

BOYNE CITY HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
September 30, 2005
=====

Check Copy/Stub

The Housing Commission currently does not attach the check copy/stub to the paid invoice.

I recommend this step be taken to improve internal controls.

Cash Reserves

The Housing Commission has a low current ratio (i.e. current assets to current liabilities). The main reason that the Housing Commission was given a substandard financial PHAS score by HUD was the low current ratio.

I recommend that the Housing Commission continue to build its cash reserves to improve the current ratio.

Mileage Reports

During disbursement testing and my interviews with the staff of the Housing Commission, it was brought to my attention that mileage reports are not standardized (i.e. each employee used their own format).

I recommend that the Housing Commission adopt a policy on travel and a standard report. This report should include not just total miles travelled that day, but also a description of the trip (i.e. from what location to what location).

Fringe Benefits

Normally fringe benefits as a percentage to wages is in the 35% to 45% for Housing Commission's in Michigan. Boyne City Housing Commission's percentage was 73.4% this past fiscal year.

I recommend the Housing Commission continue to monitor the fringe benefits of employees. During the fiscal year ending September 30, 2006, this percentage may decrease because of reduced health insurance premiums.

BOYNE CITY HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.